

Submission to the House Committee on Financial Services

for the hearing "The 15th Replenishment of the International Development Association (IDA) and the 11th Replenishment of the African Development Fund (AfDF)"

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Submission from: **International Alert¹, London, U.K.**

Key Points:

- For a number of years, specialist teams in the Bank have been generating knowledge on conflict-related issues, and have played an important role in international efforts to improve aid effectiveness in fragile states and situations. A review in 2006 by the Bank's Independent Evaluation Group highlighted many of the key ongoing challenges. Under President Zoellick and following the IDA15 negotiations, the Bank is now accelerating its efforts to improve its operations in these places. It is trying to improve financing arrangements and also generate greater knowledge on what aid modalities work best.
- Much of the institution, however, continues to treat conflict/fragility as a "thematic" issue. Discrete programmes and units are 'tacked on' to the 'standard' way of working. Conflict dynamics are not yet recognised as being fundamental to the context in which *all* types of Bank activities are taking place. Yet, in such settings failure to understand power relations and social dynamics, as well as the spatial, gender or identity group distribution of Bank assistance, risks not only ineffective assistance but also that aid itself becomes a resource worth competing for.
- *Institution-wide*, efficiency in country operations, including in fragile and conflict-affected countries, tends to be conflated with effectiveness. The absolute quantity of disbursements too often seems the benchmark by which 'success' is measured. Bank development professionals tend to focus on the endogenous, Bank system-related factors of a 'successful' project. The exogenous, context-related issues which determine the quality of outcomes over time for the country's people, not least in terms of governance relationships, continue to be underplayed.
- Raising the quality of assistance to Fragile and Conflict-affected Countries is expert labour-intensive. It requires that:
 - Staffing levels, skills sets and location be appropriate for ensuring the best possible design, implementation and follow-through on strategies and projects in very difficult operating environments.
 - Bank operations pay more attention to the recruitment processes for the implementation of Bank projects by recipient agencies (e.g. line ministries) as well as to subsequent contractor and consultant performance.
 - The right incentives need to be in place for staff to pay greater attention to these issues and to travel into districts to monitor them.

The administrative budget and performance criteria should be adapted accordingly.

- Bilateral donors to IDA (in capital and the field) must increase their own human resource capacity and budgets so that staff can properly engage with Bank staff on their decision-making. They should be able to better track and support the World Bank in its own poverty reduction efforts and for its coherence with other institutions.

Introduction

1. The global effort to reduce poverty is often distilled into the Millennium Development Goals. These are technical, quantifiable targets by which the assistance of international development institutions, such as the World Bank, are measured and by which their performance is most often assessed. Yet the reality of development is that good intentions come up against the complexity of politics, identity and culture, stark inequities between sexes, as well as severely limited local economic opportunities. In these environments, all aid is political and politics impacts upon all forms of engagement.
2. In conflict-affected and fragile states (i.e. 40-50 countries worldwide)² the challenges to development are particularly acute. The often-desperate needs, fears and insecurity of populations sit alongside prejudice, discrimination, violence and exploitation – problems which are not limited to state borders. Existing national and local institutions are often neither delivering adequate services nor ensuring that tensions are managed peacefully. Recognition of these challenges is changing the way donors and multilateral development institutions like the World Bank provide assistance.

The World Bank and the 40-50 conflict-affected and fragile states

3. As a financier and provider of influential policy and technical advice in developing countries, the World Bank has very substantial direct and inadvertent impacts on local and national economic systems and governance, as well as cross-regional dynamics.³ The Bank also plays a fundamental role in influencing the direction and characteristics of other aid and investment flows and in leveraging activities by governments who are accessing, or seeking to access, these external sources of funds. We agree with the Bank's own assessment that it "has a significant contribution to make by adapting its traditional economic and service delivery competencies to weak capacity environments and by tailoring its technical expertise to support the lead of the UN and other partners in efforts to consolidate peace and stability."⁴
4. The growing recognition in the Bank that it must not side-step conflict and fragility issues in its work is helping to drive greater efforts to improve the Bank's engagement. These include the following:
 - a) Budgeted assistance to 'fragile states' is rising. During 2003-05, the lending and administrative budgets amounted to \$4.1 billion and \$161 million, respectively – increases of 67% and 55% compared with 2000-02. (It should be noted, however, that these figures are heavily influenced by the Bank's increased engagement in Afghanistan and to some extent Iraq.)
 - b) The IDA15 replenishment negotiations involved commitments on staffing and on improving the system of 'post-conflict allocations', including through a review of the Post-Conflict Performance Indicators (PCPI) ratings and lengthening the phase-out period for the exceptional allocations. Commitments were also made with respect to the eligibility of, and guidelines for, countries 're-engaging with IDA'.
 - c) Structurally, there have been important changes which have seen a beefed-up Fragile and Conflict-affected Countries team, led at director level in the Operational Policy and Country Services Vice Presidency, put in place to replace the Conflict Prevention and Reconstruction unit and the Low Income Countries under Stress

(later called the Fragile States) unit. There is also a Conflict, Fragility and Social Development unit embedded in the Bank's Africa division.

- d) A new Operational Policy for Rapid Response to Crises and Emergencies (O.P. 8.00) was agreed by the Board in 2007 to help it deal with 'crises' in its operations. This established, in principle, that policies and procedures intended to reduce the impact of future disasters or crises, including prevention and mitigation measures, should be an integral part of all strategies for those countries. Changes to financing arrangements under the OP should have the effect of allowing the Bank to speed up the disbursement of funds in crisis-hit situations.
5. Although progress is certainly being made in some of the corridors of the Bank's headquarters and field offices, the substance and practice, institution-wide, still requires significant adaptation. The Bank needs to modify its organisational culture and also its internal procedures and processes. These are interrelated. Progress on each would be mutually reinforcing and would help *operationalise* better and more sustainable outcomes in fragile and conflict-affected countries.

Issues for the Bank:

Dealing with political economy issues?

6. The Bank's activities are set within a framework defined by the Bank's original charter: the 'Articles of Agreement'. This includes a requirement that "proceeds of any financing are used only for the purposes for which the financing was provided, with due attention to considerations of economy, efficiency and competitive international trade and without regard to political or other non-economic influences or considerations."⁵ This clause affects the Bank's work in different ways. Depending on the situation, a narrow interpretation to 'stay away from politics' may sometimes be used for very pragmatic purposes in order to achieve initial progress on long-term goals (as with, for example, two recent projects in Nepal). The article may also be invoked as a rationale to skirt around difficult issues, a reason for seeing and pursuing the often immense 'developmental' challenges as simply 'technical' - if they can be isolated from politics.
7. The Bank faces very serious dilemmas in its operations in unstable places, particularly in countries where there is no 'aid dependency', such as Sri Lanka. On the one hand, it must work with sclerotic or defunct administrative structures and within corrupt and faction-riven political systems. Ongoing physical insecurity also poses enormous operational challenges (such as in Burundi prior to the elections in 2005). On the other hand, in 'fragile' settings, 'considerations of economy' unavoidably include highly complex political economy issues. These characterise and determine the operating context. Furthermore, economic issues (and decision-making) are unavoidably political. The timing of the announcements on financial assistance may, for example, send important signals to the different parts of the polity. For example, the \$60 million Economic Reform Support Grant to Burundi in 2006 was approved at a time of significant abuse of executive power such that citizens and civil society groups might question the commitment of the World Bank to improvements to their human security and to their system of government.
8. There is a fundamental difference between avoiding the politicisation of IDA and ensuring that IDA commitments are based on sound analysis of political dynamics and of how those funds and their spatial, gender and identity distribution, will impact on

power relations and the governance environment. If, for example, geographic disparities in Sri Lanka are a concern, then the Bank must hold true to its principles in deciding what funds to provide to the Colombo government, even if this adds risk to, or reduces, the portfolio. The Bank's procedures must not function so as to disincentivise staff from making such a position clear in public on a systematic basis, nor so that implicitly, or inherently, political statements are made on the basis of the ad hoc decision-making of individual personalities or teams.

9. A further difficulty for the Bank in dealing with political economy issues lies in the country-based approach (other than for projects on regional infrastructure or trade). Funding streams are generally tied to individual countries and staff largely limited to activities *within* national borders. However, blockages to development in Nepal, for example, would be better tackled if Bank staff in Kathmandu and in Delhi were more actively engaged together in addressing cross-border factors dynamics, notably in the Terai.

Dissecting the reality of 'country ownership' and the debate on 'conditionality'

10. There is no doubt that the Bank and IMF play a vital role in helping the governments of the world's poorest countries to address critical macro-economic and long-term economic issues. This may include, as in Burundi, efforts to prevent the collapse of a country's balance of payments account or to improve a government's ability to pay (and track) the salaries of the civil public sector and security services. The instability that can be caused by serious financial shortfalls in these areas has to be avoided, and the existence of a capable government is one of the primary pillars of an effective democracy. The Bank certainly needs to dedicate significant financial and human resources to these tasks. The dilemma, however, is that external actors like the Bank cannot at any time take events and government commitments at their face value, and should not, therefore, interpret the Paris Declaration on 'aligning with government priorities' too narrowly or implement it too rapidly.
11. In highly volatile political contexts, with very young or only nominally democratic traditions and institutions, it is insufficient and inappropriate to rely heavily on state actors to motivate and lead the process of change. This process involves transforming the 'way things are done' in the country so that ordinary people are empowered within an 'open access' economy and society. Key decision-makers in central government may have little interest in bringing this about. Moreover, the executive may be so divided amongst powerful individuals that it should not be treated, or referred to, as if it is a homogenous entity. The experience of the Rural Access Improvement and Decentralisation Project (RAIDP) in Nepal shows that pressure applied at the local level (where beneficiaries are informed as to the sources of the delays and blockages) can be successful in leveraging progress and makes the calibre, and accompaniment, of the 'social mobilisers' and lead consultant contractors all the more important. It also underlines the importance of a broader transformation of the 'culture of power' which lies behind the Poverty Alleviation Fund (PAF) project in that country. Overall, the main question that must be asked is what does a political leadership committed to development look like, and what will it take to get it.
12. The PAF and RAIDP projects in Nepal illustrate one of the most striking tensions that is emerging in the Bank's work in conflict/fragile settings. This is the question of balance in respect of, on the one hand, a 'statebuilding' (in line with the Paris Declaration's

alignment agenda and also the DAC Principles of Good International Engagement in Fragile States and Situations) and 'state avoidance' where such an approach is the only way to reach the poorest groups (and thus drive economic growth and MDG progress at the local level). Bank operations can end up fragmenting under competing corporate priorities (growth, statebuilding, poverty reduction) and under the contrasting approaches of different Task Teams. The Bank continues to risk ineffectiveness also where there is a similar lack of consensus with bilateral donors on what kind of development goals and approaches are necessary given the defunct, corrupt or faction-riven politics of the operating context.

13. A second tension, reflected in a much wider debate among NGO and governmental representatives, relates to conditionality on Bank financing and the bilateral assistance (e.g. debt relief) that may flow from it. Some civil society groups are opposed to it as a matter of principle, provided that the *unconditional* support is directed and closely monitored exclusively for poverty reduction purposes. Others believe that certain obligations must be attached to such finance in order to tackle 'elite capture' and ensure wider and fairer access to the benefits intended. For example, in International Alert's view, the process to liberalise and privatise the coffee sector in Burundi is an important opportunity to pull the coffee sector out of its current crisis and ensure a more equitable distribution of revenues, in particular to its farmers. But, given the crucial economic and political importance of the coffee sector, the reform is unlikely to take place unless the Bank and IMF can find ways to help reduce the degree to which key members of the politico-business elite control the industry. By contrast, we do not consider the conditions attached to the Poverty Reduction Support Credit in Nepal to be appropriate to the dynamics of that country's transition. The bottom line is that the issues are always deeply complex and vary from country to country and case to case. The Bank's internal system must, therefore, operate so as to ensure that staff make their decisions according to the needs of the context.

Defining results:

14. The way results are defined has a profound impact on Bank processes, outputs and outcomes. This, above all, is what determines staff incentives and decision-making. The key question is whether operational choices are driven by the 'supply' end of the relationship rather or whether the context is taken as the 'starting point' for determining the timeframe and modalities of disbursement and delivery?
15. The Bank (as with other donors) continues to be affected by a culture which incentivises officials to work on operations that are large in spending terms and involve significant disbursements to meet recurrent costs (such as in a Sector-wide Approach – SwAp – on education). Under the Bank's 'results measurement' system, this is how 'performance' is most easily assessed, as manifested in the 'Results-Based' Country Assistance Strategies, the annual Status of Project Execution (SOPE) and 'Country Portfolio Performance Review' documents. The emphasis of these is on tracking expenditure and attaining pre-determined disbursement targets. It is the thrust also of the Annual Review of Portfolio Performance (APPR), which summarises how well regions are performing on 'Development Outcomes' (as the term is used by the Bank). Moreover, a major motivation for the new OP 8.00 seems to be how to deal with the Bank's internal 'crisis' where its rules and regulations prevent money from getting out the door.

16. Some of the pressure to spend per se is also due to the fact that actual lending on per capita terms is correlated with performance levels and the combined rating is scaled up or down depending on the strength of the country's 'performance'. The Bank also has a 'three ticks' system for project disbursement so that slow disbursement is flagged to senior management, with possible negative consequences for the task managers involved. Although not wrong in and of itself, it can nonetheless be considered whether these internal pressures skew staff decision-making on operational choices as they seek to avoid criticism from Bank management and certain members of the Board about reduced disbursement levels. Such questioning must rather recognise that there is a fundamental difference between, on the one hand, the immense needs of countries to receive assistance and, on the other hand, whether sustainable improvements will actually accrue to the poor in the event that more money is forthcoming.
17. The spending incentives of the 'super-charged' aid system raise a number of related concerns about decision-making on risk. These include whether, in fragile and conflict-affected contexts, the Bank's institutional 'performance' criteria will push it towards sectors and areas where there is *less* risk of disbursement problems and greater likelihood of prodding MDG statistics across headline thresholds. It may well be, in fact, that the right 'outcome' actually demands the taking of risks in difficult geographic and thematic areas and a slower, longer, incremental and staff-intensive period of disbursement. It may also be that, instead of considering moving resources into 'better performing areas' (as is being considered with Nepal's RAIDP in the face of local violence in the Terai and poor district-level financial management), more resources should be allocated to riskier areas to obtain higher quality outcomes where they are most needed. The Burundi's troubled Bujumbura Rurale province is a case in point as regards the problems of relative neglect - instability there has continued to fester and threatens the development of the country as a whole.
18. The consequence of this 'results' system is that too many Bank development professionals focus on the endogenous factors of a 'successful' project and underplay the exogenous issues which determine the quality of *outcomes* over time for the country's societies. Efficiency is conflated with effectiveness and the absolute *quantity* of disbursements risks being the benchmark by which 'success' is measured. The impressive professionalism applied to project appraisal and evaluation, and the number of supervisory and assessment missions, remain insufficient (or incorrectly designed) to address this problem. The Quality at Entry process (QER) and the work of the Quality Assurance Group (QAG) and the Development Economics Research Group (DECRG), for example, do not yet ensure that political economy and psycho-social issues are given the attention they require in all types of operations, particularly once the funds are transferred to the government implementer(s).

The role of bilateral donors in improving the Bank's engagement

19. In the World Bank headquarters, decisions on strategies and programmes are often waved through without sufficient expert scrutiny or input from the field. In-country, where bilateral donors sometimes pay close attention to Bank activities, this tends not to be systematic. It depends on (a) the size of the given Bank project in proportion to the total donor engagement in that area, and (b) the size of the given donor's programme in that country relative to the overall level of international assistance. Most frequently, bilaterals struggle to monitor the Bank's decision-making because of the lack of staff time in both the relevant headquarters and country missions.

20. Yet inter-relationship of bilateral donors with the Bank really matters not only because they allocate significant sums for spending by the Bank (around £2.1 billion from the UK government for IDA15, for example) but also because they often have substantial bilateral aid programmes in the same recipient countries. Moreover, the accountability relationship of the bilateral donors to their respective electorates for development spending is distorted by increasing financial contributions to the Bank and other multilateral agencies. This carries political responsibilities (and risks) that cannot and should not be ignored.
21. The bilaterals have an important role to play in helping to change these and their institutions have relevant and useful expertise which can be harnessed to help the Bank improve its effectiveness in fragile and conflict-affected countries. In so doing, they would be improving the impact of their taxpayers' contribution to better development outcomes in these settings.

Ways forward:

22. The crux of the challenge is for there to be a fairly seismic shift in the 'institutional culture of the Bank so that there is a greater balance of expertise within genuinely *multidisciplinary* teams. The Board and Senior Management need to make clear that, for the organisation as a whole, conflict and fragility are not (and cannot be treated as) a "thematic" issue, involving discrete programmes and units that are 'tacked on' to the "standard" way of working. It is the context in which all types of programmes and approaches are taking place and which fundamentally impacts on the assistance provided (positively or negatively). All Bank activities have implications for longer-term relationships among competing elites, between citizens and the state, as well as between diverse and often fractured population groups.
23. In terms of its procedures and processes, the Bank's management should take the following steps:
 - **Measure country, project and staff performance** in terms of progress towards the context-specific strategic goals, rather than weighting them towards more generic indicators such as volume of funds expended. The Bank needs to be more candid (at least with itself) about how it thinks its budget support, infrastructure, education and other activities affect power dynamics and social relations. It needs to be more actively conscious of how it engages with recipient communities and constituencies, and of how well contractors and consultants are performing.
 - **Base staffing decisions on experience in fragile contexts**, analytical capacity and political acumen, not technical qualifications alone. These skills sets need to be integrated into the QAG, DEC as well as Independent Evaluation Group teams.
 - **Ensure that country teams are large and expert enough** to perform the in-country travel, ongoing analysis and political networking required to implement conflict-sensitive approaches effectively. Pressure from Finance Ministries to reduce transaction costs must be resisted, given the complexities of fragile settings. Effective assistance (which helps drive forward societies towards fuller participation, greater equity and peaceful development) is not just labour-intensive, it is *expert* labour-intensive. The Bank's administrative budgets and staffing plans should reflect this (as should the stance taken by bilaterals towards permitting those costs).
 - **Provide incentives for staff to spend more time in-country and in districts** so that they have a better understanding of the local political context and will be more

capable of dealing with the power dynamics and psycho-social which determine the overall as well as day-to-day progress of the relevant strategy document(s) and the projects which flow from that strategy. The 'mission culture', whereby DC staff travel to the field every now and again for a few days, is not sufficient, and does not help to improve coherence with the UN system in-country, in line with high-level commitments.

24. In addition, bilateral donors to IDA themselves need to take certain measures within their own set-ups to improve its own way of working with the Bank. If they are to be able to provide greater assistance to the Bank, and provide some oversight that its own policy commitments are being accounted for, it needs to:

- **Ensure sufficient (and sufficiently conflict-aware) human resources in IFI divisions** of bilateral headquarters, and in Washington IFI missions, to monitor Bank strategy and project documents, and improve them, as appropriate, as they come before the Board of Executive Directors for approval. At a minimum, these units must be reinforced with sufficient numbers of staff, who can bring conflict/fragility expertise to bilateral interaction with the Bank in respect of the 40-50 different 'fragile' country operations.
- **Provide the right staffing levels and staffing incentives for field staff** to engage Bank staff on a more systematic basis, providing expertise (and, if necessary, pressure) for Bank staff to integrate political and psycho-social factors into their ways of working and, as appropriate, engage other bilaterals in efforts to influence these non-economic dynamics.

Conclusion:

25. Attention to issues of power, to social relations, to the attitudinal obstacles to the inclusion of all population groups, whether defined by religion, ethnicity, caste, clan or gender, would allow the Bank to engage more effectively in the poverty reduction agenda which it has set itself. The question of 'how' is as important as the 'how much' because the ways that a strategy and a project are formulated, consulted on and implemented can mean that they themselves become a mechanism for promoting participation, accountability and social cohesion – objectives which are vital for sustainable development.

¹ International Alert is an independent peacebuilding organisation that has worked for over 20 years to lay the foundations for lasting peace and security in communities affected by violent conflict. Our regional work is based in the African Great Lakes, West Africa, the South Caucasus, Nepal, Sri Lanka, the Philippines and Colombia. Our thematic projects focus on cross-cutting issues critical to building sustainable peace. These include business and economy, gender, governance, aid, security and justice. We have more than 100 staff based in London and our 10 field offices. Website: www.international-alert.org

² "There is no agreed global list of fragile states...One common way to estimate the level of fragility is derived from the World Bank's Country Policy and Institutional Assessments (CPIA). CPIA scores divide low-income countries into five categories of performance, the lowest two of which are useful proxies for state fragility. There is a separate group of unranked countries, also deemed fragile. This provides a list of 46 fragile states. Middle-income countries are not included in this list" - from *Why we need to work more effectively in fragile states*, UK Department for International Development, January 2005

³ IDA is the largest provider of multilateral ODA to low income countries with disbursements in the order of US\$80 billion during 1994-2005.

⁴ International Development Association (2007), *Operational Approaches and Financing in Fragile States*, Operational Policy and Country Services (OPCS) and Resource Mobilization Department (FRM), June 2007

⁵ Article V, Section 1, paragraph (g)